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Carol Keens

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Social Welfare Research Centre

THE UNIVERSITY OF NEW SOUTH WALES

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Carol Keens

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Social Welfare Research Centre
The University of New South Wales
P.O. Box 1, Kensington, N.S.W. 2033, Australia

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(1) INTRODUCTION: THE SOCIAL AND GENDER DIVISIONS OF WELFARE

There is a well-established tradition in the analysis of social policy which emphasises the interconnections of 'social welfare' with other forms of redistributive state interventions. Titmuss (1958) in his seminal essay on the social division of welfare demonstrated the ideological nature of conceptions of the welfare state which identify 'welfare' solely with cash transfers and social services to those people rendered dependent by the processes of advanced industrial capitalism. The nub of his argument is that those state interventions which have acquired the connotation 'social' exist alongside of much broader areas of intervention not thought of in such terms.

His schema outlines a threefold division of welfare: cash transfers and social services organised through the social security system – a system commonly known as 'social welfare'; allowances and benefits transferred through the taxation system which Titmuss refers to as 'fiscal welfare'; and benefits associated with the remuneration for paid employment (e.g., non-monetary 'fringe benefits') which Titmuss terms 'occupational welfare'. Although he does not make this point explicitly, what is clear from Titmuss's categorisation is that those aspects of public policy commonly known as 'social' cannot be divorced from those aspects of public policy defined as 'economic' (e.g., taxation policy) nor can 'social welfare' be analysed in isolation from the reward system of the labour market.

In Titmuss's assessment of the British welfare state of the mid 1950s, the pursuit of equitable redistribution of resources (which he held to be the purpose of social welfare) was being counteracted by the processes of fiscal and occupational welfare. On the one hand, the highly visible system of social security provided benefits for those people largely excluded from paid employment and these transfers were accounted for and subjected to public scrutiny as expenditures of state revenue. On the other hand, taxation benefits and occupational benefits were much less visible, not defined as transfers through public expenditure and functioned as 'concealed multipliers of occupational success' (Titmuss, 1958:52). Fiscal welfare and occupational welfare reversed the direction of the <u>redistribution</u> of income, services and resources, reinforcing and augmenting the position of the privileged.

What Titmuss's otherwise insightful essay did not do was to link the three divisions of welfare to the class structure of the society being studied.

Sinfield's (1978) revisiting of Titmuss points out that the public system of welfare known as "social" has been equated with services for the "poor", a system which offers limited rewards, financial insecurity and the social control of recipients. In addition, the beneficiaries of this system are largely excluded from the much more lucrative, secure and unstigmatised benefits of fiscal and occupational welfare. Writing in the period of political attacks on the welfare state, Sinfield developed another theme in Titmuss's essay: that identification of the welfare system solely with the system of social security (i.e. redistribution to the poor) provides a useful legitimation for cut-backs in public expenditure for social purposes. The systems of fiscal and occupational welfare remain relatively free from concerted attack.

Hilary Rose (1981) adds a further dimension to the revisiting of the social division of welfare: an understanding of the sex-based division of labour in domestic life on which the three systems of welfare are erected. In her feminist analysis it is made clear that the three interconnected processes of "public welfare" are based on traditional assumptions about the organisation of "private" life: on processes of men's paid wage labour and women's unpaid domestic labour. It is clear from Rose's theoretical analysis that this interpenetration of the "private" and "public" disadvantages women's access to the lucrative systems of benefit and predisposes them to the dependencies associated with the social security system. She also extends Sinfield's observation about the legitimation of contemporary attacks on the welfare state: it is precisely the unpaid services provided by women in the family and in the community which are being utilised to substitute for necessary increases in public expenditure for social services.

It is in the work of Hilary Land (1976, 1978, 1980) that the project of locating women in the three divisions of welfare has been most comprehensively developed. Her contributions provide careful delineation of the ways in which the British social security and taxation systems (1976, 1978) and the historical development of wages policy (1980) have all been based on the presumption of women's dependency as domestic workers and in their interconnections have served to reinforce the domestic division of labour and to maintain women in relative poverty.

In this paper we examine certain aspects of the division of welfare in Australia, paying closest attention to those elements of taxation policy which could be defined as providing "fiscal welfare". The aim of our account is to show how class and gender inequalities intersect to exclude the non-employed and low-paid workers (in both of which categories women are over-represented) from many of the benefits of fiscal welfare. Our objectives are threefold: firstly, to show how women as low-paid workers are largely excluded from the system of fiscal welfare; secondly, to show how the low-paid regardless of gender are excluded from the major benefits provided in the tax system; and thirdly, to show how assumptions about the domestic division of labour in the family and about intra-family income transfers are embedded in the taxation and social security policies which have been developed to take account of family dependencies.

(2) WOMEN AND LOW PAY : TAX IMPLICATIONS

Women as taxpayers can be distinguished from income earners and taxpayers in general because of the strong likelihood that they will be concentrated in the lower ranges of the income distribution. Analysis of women's labour force participation, their access to income and their income relative to men shows that women are concentrated amongst low income recipients and indicates some of the reasons for their relative impoverishment.

If we examine women's access to income in their own right, using the data provided in the 1968-69, 1973-74 and 1978-79 Income Distribution Surveys carried out by the Australian Bureau of Statistics, we find that although women's position relative to men in respect of each principal source of income has improved somewhat over the ten year period, women are still overall, and in terms of every separate source of income, relatively disadvantaged.

Tables 1, 2 and 3 show the principal source of income for both males and females and the median and mean income obtained from these sources for the years 1968-69, 1973-74 and 1978-79. In 1968-69, 89.2 per cent of all male income recipients but only 49.2 per cent of all female income recipients gained their principal source of income from earned income i.e., wages and salaries, their own business or profession, or business partnership. In 1973-74 the proportions for men had decreased to 87.6 per cent and for women had increased to 52.3 per cent. In 1978-79, both these proportions had fallen with 81.2 per cent of men and 49.3 per cent of women having earned income as their principal source of income. The principal source of income for a substantial number of female income recipients was a government social security benefit which included family allowances, age pensions, unemployment, sickness and supporting parents' benefits, widow's pension and government cash benefits for education. In 1968-69, these benefits were the principal source of income for 41.7 per cent of women and by 1978-79 the proportion had increased to 43.2 per cent. In 1978-79 the median income for these women was $2110. In contrast only 7.3 per cent of male income recipients in 1968-69 and 15 per cent in 1978-79 gained their principal source of income from a government social security and welfare cash benefit. In 1978-79 their median income from this source was $2780.

TABLE 1

PRINCIPAL SOURCE OF INCOME - MEDIAN AND MEAN INCOME 1968-69

	MALES			FEMALES		
Principal Source of Income	%	Median Income $	Mean Income $	%	Median Income $	Mean Income $
Wages or salary	76.2	3,190	3,450	42.8	1,610	1,670
Own business, farm, profession, etc.	6.3	3,560	4,780	1.5	1,570	2,050
Share in Partnership	6.7	3,210	4,480	4.9	2,350	3,080
Government social security and welfare cash benefit	7.3	720	860	41.7	220	400
Interest, dividends, rent etc.	2.1	1,460	2,880	7.2	360	1,160
Superannuation	1.2	2,170	2,750	0.8	1,360	1,640
Other	0.2	1,500	3,010	1.2	1,260	1,820
Total	100	3,050	3,390	100	740	1,180

Source : Commonwealth Bureau of Census and Statistics (1973) Income Distribution, 1968-69, Part 1 Reference No. 17.6 CBCS, Canberra

TABLE 2 PRINCIPAL SOURCE OF INCOME — MEDIAN AND MEAN INCOME 1973 - 74

Principal Source of Income	MALES %	MALES Median Income $	MALES Mean Income $	FEMALES %	FEMALES Median Income $	FEMALES Mean Income $
Wages or salary	75.1	5,760	6,060	46.1	3,080	3,160
Own business, farm, profession etc.	6.2	6,260	7,870	1.4	3,170	3,950
Share in Partnership	6.3	5,220	6,500	4.8	3,910	4,770
Government social security and welfare cash benefit	9.3	1,290	1,440	41.0	460	740
Interest, dividends, rent etc.	1.9	2,700	4,060	5.3	380	1,540
Superannuation	1.0	4,140	4,310	0.5	2,570	2,470
Other	0.3	2,110	4,130	0.9	1,670	2,430
Total	100	5,380	5,710	100	1,370	2,160

Source: Australian Bureau of Statistics (1978) Income Distribution 1973-74, Australia, Part 1. Cat.No. 6502.0. ABS, Canberra.

TABLE 3 PRINCIPAL SOURCE OF INCOME — MEDIAN AND MEAN INCOME 1978 - 79

Principal Source of Income	MALES %	MALES Median Income $	MALES Mean Income $	FEMALES %	FEMALES Median Income $	FEMALES Mean Income $
Wages or salary	67.1	11,070	11,570	41.4	7,030	7,050
Own business, farm, profession etc.	5.8	10,350	13,580	1.3	6,150	8,170
Share in Partnership	8.3	8,370	10,560	6.6	7,130	8,640
Government social security and welfare cash benefit	15.0	2,780	3,040	43.2	2,110	1,980
Interest, dividends, rent etc.	1.9	5,170	6,910	6.2	1,190	3,210
Superannuation	1.4	8,270	9,310	0.5	6,600	6,760
Other	0.6	5,290	6,270	0.8	3,210	4,830
Total	100	9,740	10,170	100	3,300	4,720

Source: Australian Bureau of Statistics (1981) Income Distribution Australia, 1978-79, Individuals. Cat.No. 6502.0. ABS, Canberra.

The relatively low income position of women is shown by the ratio of female income to male income for each principal source of income. Table 4 shows that over the decade 1968 to 1978 the position of women has improved slightly. However in 1978-79 female wage and salary earners still earned only 64 cents to every male dollar and even when women worked full-year, full-time (Table 5 indicates that 44 per cent of women and 79 per cent of male income earners worked full-year, full-time in 1978-79) they earned only 76 cents to every male dollar. Combined with the fact that women were three times more likely than men to gain their principal source of income from a low income source - social security benefits - all female income recipients received on average 34 cents for every male dollar in the year 1978-79.

Analysis of women's position in the overall income distribution provides further evidence of the low income position of a majority of women. Taking as a benchmark income at or below that received by the lowest decile of male income recipients, income distribution data show that in 1968-69, 51 per cent of women received less than the level of income received by the poorest 10 per cent of men. This figure decreased over the years to 45 per cent in 1973-74 and 38 per cent in 1978-79.

Figures for weekly earnings of employees (ABS August, 1981) provide another dimension of women's reduced access to earned income (Table 6). These data demonstrate that while 50 per cent of full-time male employees earn less than $252 per week, 74 per cent of full-time female employees earn less than this amount and 90 per cent of part-time female employees earn less than $200 per week. It is important to note that 95 per cent of men were employed full-time (35 hours per week or more) compared with 66 per cent of women.

In addition to their access to cash income from employment, women are also disadvantaged in their access to non-cash employment benefits. Figures from the Australian Bureau of Statistics Survey of Employment Benefits (1979) (Table 7 and 8) show that men constituted 67 per cent of the total labour force working twenty hours or more but constituted 80 per cent of persons receiving superannuation benefits, low interest finance and subsidisation of housing costs and holiday costs, and 90 per cent of persons receiving telephone, transport, club fees and entertainment allowances.

It is pertinent to note that one of the most valuable benefits, superannuation, is most inequitably distributed: 50 per cent of male employees have superannuation benefits associated with their jobs compared with 20 per cent of female employees. Because of their discontinuous work history and their employment in the secondary labour market women are less likely to have access to superannuation benefits. Men are more likely to have the opportunity to benefit from superannuation schemes with higher employer contributions, but this is a concomitant of employment in higher income jobs in the primary labour market. Low income-earning men in the secondary labour market are disadvantaged in their access to employment benefits, in ways similar to women.

TABLE 4:

RATIO OF MEDIAN INCOME OF FEMALES TO MALES FROM EACH PRINCIPAL SOURCE OF INCOME

Source of Income	1968-69	1973-74	1978-79
Wages or salary	.50	.53	.64
Own business, farm or profession etc.	.44	.51	.59
Share in partnership	.73	.75	.85
Government social security and welfare cash benefit	.31	.36	.76
Interest, dividends, rent etc.	.25	.14	.23
Superannuation	.63	.62	.80
Other	.84	.79	.61
TOTAL	.24	.25	.34

Source: Australian Bureau of Statistics Income Distribution, Ref.No. 17.6, Cat.No. 6502.0.

TABLE 5:

EARNED INCOME AND EMPLOYMENT STATUS
1978-79

	Full Yr. Full Time	Full Yr. Part Time	Part Yr. Full Time	Part Yr. Part Time	Total
MALES %	79.1	1.8	17.0	2.1	100
Median Inc.	11,560	6,060	5,660	2,570	10,540
Mean Inc.	12,540	7,570	6,290	4,230	11,210
FEMALES %	44.4	21.2	19.5	15.0	100
Median Inc.	8,800	4,820	3,740	1,860	6,260
Mean Inc.	9,130	5,900	4,360	2,600	6,540

Source: Australian Bureau of Statistics (1981) Income Distribution Australia, 1978-79, Individuals. Cat.No. 6502.0. ABS, Canberra.

TABLE 6

RATIO OF FEMALE TO MALE WEEKLY EARNINGS AUGUST 1981 :
FULL TIME EMPLOYEES

	MALES	FEMALES	RATIO OF INCOME
	$	$	$
Median weekly earnings	252	206	.82
Mean weekly earnings	277	218	.79

Source : ABS (1982) Weekly Earnings of Employees (Distribution), Australia, August 1981, Cat.No. 6309.0

TABLE 7

EMPLOYEES WHO USUALLY WORK 20 HOURS OR MORE A WEEK :
PERCENTAGE RECEIVING EACH TYPE OF EMPLOYMENT BENEFIT,
FEBRUARY TO MAY 1979

	MALES	FEMALES	PERSONS
		%	
Total employees	67	33	100
Holiday costs	80	20	100
Low interest finance	79	21	100
Goods and services	67	33	100
Housing	84	16	100
Electricity etc.	78	22	100
Telephone	91	9	100
Transport	91	9	100
Medical	70	30	100
Study leave	74	26	100
Superannuation etc.	80	20	100

Source : ABS (1980) Employment Benefits, Australia, February to May 1979, Cat.No. 6334.0. Canberra.

TABLE 8:

EMPLOYEES WHO USUALLY WORKED 20 HOURS OR MORE A WEEK :
PERCENTAGE OF EMPLOYEES RECEIVING EMPLOYMENT BENEFITS ACCORDING TO
NUMBER OF SEPARATE TYPES OF BENEFIT RECEIVED
AND USUAL WEEKLY EARNING : FEBRUARY TO MAY 1979

USUAL WEEKLY EARNINGS $	NO BENEFITS	ONE BENEFIT	TWO BENEFITS %	MORE THAN TWO BENEFITS	TOTAL
Under $200	37	39	15	9	100
$200-350	20	35	23	22	100
$350 and over	9	26	22	43	100

Source : ABS (1980) Employment Benefits, Australia, February to May 1979, Cat.No. 6334.0. Canberra.

Analysis of employment benefits by level of individual income (Table 8) reveals the basis of women's unequal access. The receipt of benefits is directly related to income; the higher the income, the higher the number of associated non-wage employment benefits. Only 24 per cent of people earning less than $200 per week received more than one benefit, while 45 per cent of people earning between $200 and $350 per week, and 65 per cent of people earning over $350 had access to more than one benefit. Since women cluster in the lower ranges of the income distribution, they are more likely than men to receive the greatest part (or all of their income) as cash. As discussed later this may result in women (along with male low paid workers) bearing an inequitable share of the tax burden.

Why are women relatively impoverished? To answer this question we must examine women's greatly reduced access to earned income, the reduced likelihood that they will be in full-time, full-year work and their concentration in low paid occupations even when they are in full-year, full-time work.

Women's low pay when in full-year, full-time work is partly explained by labour market segmentation into 'primary' and 'secondary' sectors and the concentration of women in the secondary sector. Jobs in the primary labour market are characterised by security and stability, higher wages in an incremental salary scale, the provision of non-wage fringe benefits, the opportunity to undertake training courses to upgrade qualifications, and some level of employee control over the labour process. In contrast, jobs in the secondary labour market are characterised by insecurity, high turnover, a high incidence of part-time and casual employment, relatively poor pay, few fringe benefits, little chance to upgrade skills and little or no control over the labour process.

An analysis of the sex composition of the labour force in various industries and occupations within industries from 1966 to 1980 shows the extent and consolidation of the sex segmentation of the Australian labour market (Cass, 1981). Men and women are typically employed in male and female industries, and in male and female occupations within industries, with little overlap. Women have been under-represented in agriculture, mining, manufacturing, construction, transport and storage, and over-represented in wholesale and retail trade, finance, property and business services, community services and entertainment and the personal services. The jobs in which women are concentrated are closely derivative of housework: in process work, in the production of foodstuffs, clothing, footwear and textiles; in the sale of similar commodities destined for domestic consumption; in servicing of offices; in personal services and in teaching of the young, care of the sick and in services to welfare beneficiaries and other poor people.

In attempting to explain the development of the sex segmented labour market the OECD Observer stated that:

> The reasons why particular kinds of jobs originally came to be dominated by women is that these areas were expanding their demand for labour just at the time when non-working (sic) women were the main source of supply. The occupations they entered then came to be seen as suitable forms of employment for women, towards which the education and training of girls and young women were oriented.
>
> (OECD Observer, 1980:5-6)

Other explanations for concentration of women in low paid jobs have been: workforce discrimination; a historical lack of education and training because of sex discrimination in education; discontinuous employment patterns due to household work and child care responsibilities; monopsonistic labour markets (i.e., market where there is only one purchaser for a specific type of labour); limits on geographical mobility because of women's domestic responsibilities;

exclusion from the primary sectors of occupations and organisations both in private and public employment (Baldock, forthcoming); and concentration in jobs that have not been well unionised and where legislation is hard to enforce because of the private and casual nature of the work (e.g. in the service industries).

As noted above, in 1978-79 only 44 per cent of women were employed full-year, full-time compared with 79 per cent of men. More detailed analysis of women's labour force participation indicates some of the reasons why fewer women than men are in paid work. Labour force participation rates for women estimated according to family status for June 1981 (ABS, 1981) show that labour force participation for women aged 25-54 is decreased somewhat by marriage, but much more so when they have dependent children. Female gender itself decreases labour force participation (women who are not family members are less likely to be in the labour force than men who do not live in families) but marriage and childcare, and childcare in particular, cast a marked inhibiting effect on women's income earning work. It seems clear that one of the indirect and hidden financial costs of childcare is income foregone by the mother, (and her relative impoverishment) either because she leaves the paid workforce or because she reduces the hours of her paid work. (See Cass, Keens and Wyndham, forthcoming).

What is crucial to understand is that when women are engaged in non-market work, i.e., when they are taking care of their children and their households, when they are producing goods and services which are not sold on the market but are given away and exchanged within the family and beyond, in a spirit of reciprocity, they are financially disadvantaged, and in many instances rendered financially dependent. Their access to income, and that of their children, may come to depend not only on the level of income and wealth of a male breadwinner, but also on his goodwill and discretion as to adequate and equitable rates of remuneration.

In the recent family and social welfare literature it has been pointed out that we cannot continue to make the assumption that income is pooled and shared within families, that women and children always share equitably in men's earned income. Meredith Edwards (1981) and Jan Pahl's (1980) work on intra-family transfers both insist on the necessity for empirical investigation of the long held assumption that men's income and men's labour market situation are sufficient basis on which to assess the well-being of the women and children in their families. Pahl in her article, 'Patterns of Money Management with

Marriage' draws attention to the possible 'hidden poverty' of family dependents, that is, of dependent women and children. The possible inadequacy of intra-family transfers of income has important implications for any policy which is designed to promote the welfare of women and children by increasing the income of a male breadwinner. Some of these implications will be discussed later in this report.

At the same time that we emphasise the possible hidden poverty of women dependent on a male breadwinner, equal emphasis must also be placed on the not-so-hidden poverty of the large proportion of single parent mother-headed families with dependent children (which constituted 13 per cent of all families with children in 1979) where women are severely disadvantaged in their access to income and home-ownership compared with two parent families and male single headed families (ABS, 1980b). Australian poverty research (SWPS, 1981) has demonstrated that low pay and poverty are more likely to be associated with female gender, either alone or compounded by old age or single parenthood, than with male gender. This process has been termed the 'feminisation of poverty' (Preston, 1982:20).

The data presented above have shown the disproportionate representation of women amongst low income recipients. The following section will show how the personal income tax system acts to further reduce the disposable income of low income recipients while at the same time giving preferential treatment to the income and expenditure of higher income groups.

(3) THE PERSONAL INCOME TAX STRUCTURE

Much discussion about the Australian Personal Income Tax System proceeds on the assumption that the system is progressive - that the proportion of income paid in tax increases as income increases. It is assumed that low income earners pay relatively less tax in proportion to their income than do high income earners. How accurate is this assumption? This section will examine the extent to which the Australian personal income tax structure can be described as progressive.

(i) Equity - The Case for a Progressive Income Tax

An important objective in the design of a tax system is that the burden of tax should be shared amongst taxpayers in an equitable manner. In conventional taxation terms, equity has two dimensions: horizontal equity which requires that taxpayers in similar circumstances bear the same tax liability; and vertical equity, which requires that taxpayers in different circumstances bear appropriately different tax liabilities. In the tax system 'similar' and 'different' circumstances are measured by the taxpayers 'ability to pay' which in the personal income system is reflected in the concept of money 'income' and demands made upon that income by family members.

Both the UK Royal Commission on the Taxation of Profits and Income (1954) and the Canadian Royal Commission on Taxation (1966) have expressed the view that equity in the personal income tax system can be best achieved by the adoption of a progressive tax structure. The Canadian Commission argued that equity is achieved when individuals and families with the same gains in discretionary economic power pay the same amount of tax. Discretionary economic power was described as the residual power to command goods and services for personal use after providing the necessities of life and after meeting family obligations and responsibilities. The view was expressed that no income tax should be levied on an income which was only sufficient to provide for the necessities of life. Field, Meacher and Pond (1977) argue that by definition the poor have incomes which are only adequate to provide the basic essentials of an acceptable standard of living and that it is logical that they should not have their incomes reduced further by income tax.

Both Royal Commissions argued that tax should only be made upon surplus or discretionary income. The Canadian Commission further stated that progressive rates would merely reflect the diminishing relative importance of non-discretionary expenditure for those with larger gains in economic power. Because households with children have less discretionary spending power than those without children, equity was also seen to require that the latter pay more tax than the former.

The Australian system of personal income tax has been based on the theoretical notion of achieving equity in distribution of the tax burden through a progressive tax structure. The Australian system is nominally progressive.

- the tax threshold (the amount of income exempt from taxation) excludes a minimum level of income from tax;
- marginal rates of tax (the rate of change of tax payable with the change in taxable income) increase as taxable income increases;

- average rates of tax (the ratio of tax payable to taxable income) increase as taxable income increases;
- marginal rates of tax exceed average rates of tax.

However it is incorrect to infer that the nominal impact of the system is the same as its real impact. Progressivity of the tax system is greatly reduced by the narrow definition of the tax base (which provides opportunity for tax evasion and avoidance) and by the system of concessions and deductions which, as we shall demonstrate, give preferential treatment to the income and expenditure patterns of those on high incomes at the expense of low income earners.

(ii) The Tax Base

Level of income is used in the personal income tax system as a measure of the person's ability to pay tax. As an index of taxable capacity it is necessary that income should be broadly defined. The Memorandum of Dissent attached to the UK Royal Commission on the Taxation of Profits and Incomes argued that the taxable capacity of an individual consists of the power to satisfy material needs, i.e., to attain a particular standard of living.

> No concept of income can be really equitable that falls short of the comprehensive definition which embraces all receipts which increase an individual's command over the use of society's scarce resources.
>
> (Royal Commission on the Taxation of Profits and Incomes, Memorandum of Dissent, 1955)

The dissenting Memorandum also expresses the view that in a system which lacks a basic conception of income, neither the public nor the legislatures nor the courts are conscious of the extent to which the tax system behind a facade of formal equality, metes out unequal treatment to different classes of the taxpaying community.

The definition of income in the Australian personal income tax system falls far short of the comprehensive definition of income suggested by the Royal Commissions.[1] Some of the items excluded from the Australian tax base include

- gifts not connected with employment

- 95 per cent of capital accretion in connection with retirement or termination of employment
- accrued capital gains
- realised capital gains (except for capital gains associated with selling of an asset held for less than twelve months and capital gains resulting from sale of an asset with intention to make profit)
- inheritances and bequests
- lottery and gambling winnings
- imputed income from services rendered by family members
- imputed income from owner occupied dwellings.

Also although fringe benefits are legally taxable, in practice they are rarely taxed because of administrative and political difficulties (Groenewegen, 1980).

Exclusion of these items from the tax base has an unequal impact on taxpayers because the sources of income excluded are unevenly distributed throughout the community. These sources of income tend to be enjoyed by high income earners. Owner-occupied housing, which is enjoyed much more by higher income earners, is a source of imputed income which is not taxed. Low income earners in rented accommodation do not enjoy similar benefits. Capital gains are concentrated in the hands of property owners (and particularly the owners of equity shares). It is well known from American experience that capital gains constitute a major source of income for high income earners but are much less significant as a source of income for low income earners. We would expect this to be true also for Australia. The distribution of employment benefits, as earlier sections of this paper have shown, is directly related to cash income earned by employees. Inheritances and bequests benefit those on higher incomes as they are the means through which wealth is transferred from one generation to the next. Such items contribute to the individual's command over economic resources and as such increase the ability to pay tax.

Exclusion of these sources of income from the tax base stands in marked contrast to the inclusion of most social security pensions and benefits in the base since 1976. The major political reason for this tax policy was to reduce the extent to which it was possible for a beneficiary to derive more disposable income while on a benefit than in paid employment.

Inclusion of these benefits in the tax base has significant implications for low income recipients of pensions and benefits. Combined with the incomes test, which applied in 1981/82, they result in many low income people facing high effective marginal rates of tax, e.g., in a household with two adults and two children, if both adults are unemployed but one has part-time work which pays $40 per week, the effective incremental rate of tax on this $40 is 61 cents in the dollar and the marginal rate is 66 cents in the dollar.

The definition of the income tax base in Australia will thus include most of the income of those who are relatively poor but may exclude much of the income of those who are relatively wealthy. When we consider the concentration of women in the low income groups the implications are clear.

Russell Mathews (1980) has identified some of the far reaching consequences of the adoption of a narrow income tax base. In particular he sees the exclusion of capital gains and windfall gains as having led to opportunities for tax avoidance by those who derive substantial income from property or business. He notes that:

> In terms of equity effects the advantage claimed for progressive personal income taxes over other forms of taxation depends on the premise that all persons actually pay the taxes they are intended to pay. If this is not so and if some persons have greater opportunities to evade and avoid taxes than others the advantage is illusory and the progressive rate structure is irrelevant to the question of an equitable distribution of the tax burden.
>
> (Mathews, 1980:92)

Mathews believes that in addition to eroding the revenue base and threatening the stability of the whole tax system, tax avoidance and evasion have radically changed the distribution of the tax burden between wage and salary earners and other income recipients on the one hand and between different income classes – rich and poor – on the other. The shift in the tax burden is shown by the reduction in the effective rate of tax on the non-PAYE income (a category which is drawn mostly from dividends, profits and unincorporated non-farm businesses) in comparison with the increase in PAYE taxes.

TABLE 9 INCOME AND TAX CHANGES 1975-76 to 1980-81

Category	1975-76 $M	1976-77 $M	1976-77 % change	1977-78 $M	1977-78 % change	1978-79 $M	1978-79 % change	1979-80 $M	1979-80 % change	1980-81 $M	1980-81 % change	1981-82 $M	1981-82 % change	1975-82 % change
A.														
Wages, salaries & supplements	41,445	46,880	13.1	51,548	10.0	55,879	8.4	61,700	10.4	71,495	15.9	82,390	15.1	98.8
PAYE tax paid	7,020	8,529	21.5	9,639	13.0	10,398	7.9	12,160	16.9	14,121	16.1	17,417	23.3	148.1
B.														
Income from rent, interest, dividends and unincorporated enterprises	12,912	15,211	17.8	17,003	11.8	21,715	27.7	23,337	7.5	25,386	8.8.	29,104	14.6	125.4
NON PAYE tax paid	2,193	2,518	14.8	2,483	-1.4	2,400	-3.3	2,880	2.0	3,423	18.9	3,807	11.2	73.6

Source: ABS (1982) Quarterly Estimates of National Income and Expenditure March 1982, Cat.No. 5206.0, Canberra.
Austin, A. (1980) 'Who really benefits from tax reform?' Nation Review, March 1980: 8.
Budget Statements 1982-83 Budget Paper No. 1.

Table 9 shows that over the period 1975/76 to 1981/82 income from wages, salaries and supplements increased by 98.8 per cent. Tax on this source of income (PAYE tax) increased over the same period by 148.1 per cent. In contrast the period 1975/76 to 1981/82 saw income from rent, interest, dividends, and unincorporated enterprises increase by 125.4 per cent while tax on this source of income increased by only 73.6 per cent. From 1975/76 to 1981/82 non-PAYE tax as a proportion of PAYE tax decreased from 31 per cent to 22 per cent. In Mathews' words:

> A massive tax revolt has ... taken place; ... it is a revolt against wage and salary earners, and the rich against the poor.
>
> (Mathews, 1980:107)

(iii) Tax Deductions

The tax base is further reduced by deductions which taxpayers are allowed to offset against their assessable income. Deductions in most countries have generally consisted of allowances for emergency costs (such as medical bills), allowances for dependents and allowances for costs associated with paid work. By their very nature deductions rise in value as the taxpayer's bracket rate (rate of marginal tax) and hence income increases. Deductions are thus of greater value to the taxpayers paying tax at the rate of 60 cents in the dollar than to the taxpayer who only pays 32 cents in the dollar.

The usual justifications given for deductions is that they may encourage expenditure or savings which are considered economically or socially desirable or that they may be used to make taxable income a better measure of ability to pay tax. As Musgrave observes 'the objective after all, is not to maximise the tax base but to secure a fair measure of taxable income' (Musgrave and Musgrave, 1973). However the UK Royal Commission on Profits and Incomes recognised that tax deductions may also have undesirable side effects. They note that generous provision for business expenses invites the dressing up of personal expenses as business expenses and the dressing up of income payments as expense allowances.

In Australia before 1975 tax deductions were a major part of the tax structure. Deductions were allowed in respect of dependents (spouse and children), medical expenses, education expenses, superannuation costs, costs associated with employment etc. However in 1975/76, in recognition of the inequitable nature of tax deductions, most deductions were replaced by a system of tax rebates which are of the same value to most taxpayers. The only deductions that now remain in the personal income tax systems are

- trade union or professional association fees
- deductions relating to living away from home costs
- expenditures necessarily incurred in earning income
- gifts to public institutions or to approved school building funds
- tax agents fees

and added to the list for 1981/82, home insulation expenses - in recognition of an expenditure which may reduce electricity and fuel consumption. In 1979/80 deductions only reduced the tax base by approximately 2 per cent.

Within this structure of tax deductions costs of childcare are not recognised as a cost incurred in earning income. However childcare costs significantly reduce the ability to pay tax of the person incurring them. Lack of community childcare and lack of recognition of childcare costs in the tax system casts a marked inhibition on women's labour force participation, especially that of sole mothers.

Ann Summers has noted that the only recognition given in the tax system to costs associated with care of young children is the allowance for pre-school costs (under the category of education) in the system of concessional rebates. She notes that pre-schools can do little to assist the mother who is working full time.

> Pre-school care is part-time care and of little use to working women who need all day care. This is one example of our tax system favouring non-working as against working women. (Summers, 1981)

(The cost of pre-school care, in families where the wife is not employed would usually be claimed on the husband's tax return.) However Summers also questions whether the tax deduction system is the appropriate place for recognition of child care costs.

> It could be argued on equity grounds that women should perhaps concentrate their efforts into putting pressure on the government

to increase child care facilities, which would be of greater practical assistance to working women, than in supporting a principle whereby revenue would be foregone, in the form of tax concessions for wealthy women.
(Summers, 1981)

In Canada where deductions are allowed for childcare costs, Julie White (1981) has observed that there has been a low take up of this benefit. She explains this by the fact that middle and low income parents are forced to use informal types of childcare where receipts for payment are often not given – thus excluding them from claiming costs through the tax system. The same could be expected to occur within the Australian tax system if childcare costs were made a tax deduction. In Australia in 1980, 353.6 thousand family units were using informal childcare services. This represented 76 per cent of all families using childcare. Approximately 50 per cent of informal childcare was provided by relatives (other than spouse and older children) and persons outside the family unit (Sweeney and Jamrozik, 1982:19). In a tax system where receipts were necessary to claim childcare deductions most of these families would be excluded from the benefits of the system.

(iv) Tax rebates

The system of tax rebates, which replaced most tax deductions in 1975/76, introduced a greater degree of equity into the tax system as rebates unlike deductions are of the same value for the majority of taxpayers claiming them.[2] Rebates are normally divided into two categories; expenses based or non-dependent rebates which give preferential treatment to the sort of expenditure which is traditionally regarded by the State as necessary or desirable and dependent' rebates which give recognition to the additional costs of maintenance of dependents.

Most expenses-based or concessional rebates in 1981/82 are only available to taxpayers whose concessional expenditure exceeds $1590. 'Concessional expenditure' is expenditure in respect of doctors, hospitals, chemists, dentists, opticians and optometrists, other medical, funeral, education, rates and land taxes on sole or principal residence, life insurance and superannuation, adoption of a child and one-third of calls paid to afforestation companies. For every $1 by which concessional expenditure exceeds $1590 a rebate of 32 cents is available. Limits are placed on many of the expenses that can be claimed as concessional expenditure. These limits are not indexed and since 1975/76 have been at the same level (education $250; rates and land taxes

$300; life insurance and superannuation $1200). Non-indexation of these limits has reduced the benefit that taxpayers can recoup on such expenditures.

Another expenses related rebate has been introduced for 1981/82 – the health fund claim. Taxpayers can claim 32 per cent of the costs to them of having basic medical and public ward hospital insurance cover. This can be claimed by all eligible taxpayers, not only those whose expenditure exceeds $1590. In the financial year 1982/83 a home loan rebate will be introduced for those who have bought their first home within the last five years. This will not be means tested.

In 1979/80 7 per cent of taxpayers claimed concessional rebates. Of those taxpayers with a taxable income below $12,000 (approximately equal to male AWE) 1.2 per cent claimed concessional rebates while 16.5 per cent of taxpayers with taxable income over $12,000 claimed a rebate. Only 1 per cent of female taxpayers claimed a rebate compared with 10 per cent of male taxpayers (Taxation Statistics, 1980). For 1978/79 Horn (1981) estimated that the average claim was $2100 against the minimum of $1590 and that about half of the claims were for life assurance or superannuation payments. Few female taxpayers had claims for concessional rebates mainly because women are much less likely than men to have the sort of expenditure against which claims can be made and also because the condition of exceeding the expenditure limit is more easily met by one spouse in a married couple household claiming all expenditure (all expenditures are transferable between married couples apart from superannuation costs).

The switch from concessional deductions to concessional rebates meant that many households with dependent children could no longer receive assistance with expenditure on health and education through the tax system. Groenewegen (1981) has argued that this has introduced inequities into the tax system: horizontal inequity between households with the same income but a different number of dependent children and vertical inequity between households with the same number of children where only those on high incomes obtain rebates. Combined with the non-indexation of family allowances, Groenewegen suggests that this has created a bias against families with children in the tax/cash transfer system.

The second category of rebates consists of dependent rebates. The dependent rebates that can presently be claimed in the personal income tax system consist of:

- spouse/daughter housekeeper rebate
- invalid relative rebate
- parent, parent-in-law rebate
- housekeeper rebate
- sole parent rebate

In the year 1975/76 a child rebate could also be claimed but in 1976 this was abolished and the resultant additional revenue disbursed in the form of large increases in child endowment, which were renamed Family Allowances.

In 1979/80 the total revenue foregone in providing dependent rebates was $935 million, 62 per cent of which was allocated to the spouse rebate. Tax statistics for 1979/80 (Supplement to the Report of the Commissioner of Taxation) show that 31 per cent of married couple taxpayers claimed the spouse rebate. Of those married couple taxpayers whose income fell below average weekly male earnings only 21 per cent received the spouse rebate. In contrast 43 per cent of married couple taxpayers whose taxable income exceeded average weekly male earnings received the rebate. Only 2 per cent of female taxpayers in married couple units claimed a spouse rebate while 45 per cent of male taxpayers did.

Data on distribution of other rebates show the same trend, i.e. they mainly benefit higher than average income taxpayers and also mainly benefit male as against female taxpayers.

The only rebate which is downwardly redistributive and redistributive towards women is the sole parent rebate which was introduced in 1975/76 (Shaver and Walker, 1980). Of the 81,981 taxpayers receiving the rebate in 1979/80, 70 per cent had below median earnings and about 77 per cent were female. Overall 4.5 per cent of taxpayers received this rebate; 24 per cent of female taxpayers and 1.2 per cent of male taxpayers. The sole parent rebate is of significnatly less value than the spouse rebate: in 1981/82 the dependent spouse rebate was worth $830 while the sole parent rebate was worth $580. Since 1976/77 the sole parent rebate has been set at 70 per cent of the value of the spouse rebate. The sole parent rebate recognises that a single parent has less capacity to pay tax than a single person on the same income but its value in relation to the spouse rebate appears to be based on an assumption that a sole parent has a greater capacity to pay tax than a married taxpayer with a dependent spouse.

Despite the fact that the system of tax rebates, which replaced tax deductions in 1975/76, introduced greater equity into the tax system, inequities remain due to the fact that:

- most rebates, expense related and dependent rebates, mainly benefit those on higher incomes and as a result mainly benefit men.
- rebates are of less benefit to those taxpayers whose tax liability is less than the value of the rebate (and are of no value to those who do not incur any tax liability).

(The issues of the spouse rebate and the treatment of taxpayers with a dependent spouse compared with the treatment of taxpayers with dependent children are taken up in the last section of the report.)

(v) Tax Threshold

As we have seen, an important principle in design of the personal income tax system is that the poor should not have to pay tax. Field, Meacher and Pond (1977) have shown that in Britain this principle no longer applies. Comparing the tax threshold with the two official poverty lines for Britain, the supplementary benefits level and the level of eligibility to family income supplement, they show how the threshold has fallen to a level below both these lines for all household types. Further, Field (1981) has recorded that the tax threshold has not fallen equally fast for all groups - much more significant reductions have been experienced by households with children.

Do the poor in Australia incur a tax liability? Unlike Britain, Australia does not have an official poverty line. However the Henderson poverty line, updated by average weekly male earnings gives an indication of poverty levels in Australia. Against this we can compare changes in the effective tax threshold[3] for different household types.

Table 10 shows the ratio of the tax threshold to the poverty line for various household types. In 1975/76 the only type of household which incurred a tax liability on below poverty level incomes was the single taxpayer paying at the single rate. By 1981/82, in addition to the single taxpayers, all married couples with children and sole parents with two or three children incurred a tax liability on poverty level incomes.

TABLE 10: EFFECTIVE TAX THRESHOLD AS A PERCENTAGE OF THE HENDERSON POVERTY LINE*

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	Change p.p.
Single Person	95.1	95.4	103.7	110.4	100.7	94.7	86.6	- 8.3
Married Couple with dependent spouse	112.8	117.8	121.7	120.3	110.1	114.8	104.9	- 7.9
Married Couple with dependent spouse + 1c	113.5	112.1	113.1	108.5	100.5	103.8	94.7	-18.8
Married Couple with dependent spouse + 2c	109.4	110.3	110.1	105.5	96.8	98.9	89.9	-19.5
Married Couple with dependent spouse + 3c	108.3	110.3	109.4	104.6	96.1	97.2	92.7	-15.6
Married Couple with dependent spouse + 4c	108.2	110.4	108.9	103.8	95.4	95.8	94.8	-13.4
Sole parent + 1c	120.4	125.9	128.2	125.3	115.0	116.3	105.9	-14.5
Sole parent + 2c	117.4	124.1	123.4	117.7	108.0	108.3	98.4	-19.0
Sole parent + 3c	115.7	122.1	120.5	114.8	105.3	104.8	99.6	-16.1
Sole parent + 4c	114.6	116.5	118.4	112.5	103.5	97.8	101.9	-12.7

*The poverty line used is that in which the head is in the workforce.

Comparing the ratio of the tax threshold to the poverty line over the years 1975/76 to 1981/82 it can be seen that this ratio has declined for all household types. Households with two children have experienced the greatest decline in this ratio while married couple households with a dependent spouse but no children have experienced the least decline in the ratio. (This is explained by the increase in the value of the spouse rebate over the period by 108 per cent).

Another way of measuring the changes in the tax threshold for different types of taxpayers is to present the threshold as a percentage of average earnings (Table 11). Examination of the effective threshold as a percentage of average earnings shows that this has fallen for each household type over the period 1975/76 to 1981/82. However the greatest fall in the tax threshold has again been for those households with children. Particularly hard hit are those households with two or more children. The decrease in the level of the effective tax threshold is mainly explained by the failure of the government to index the tax brackets in line with the increase in inflation or to index the value of family allowances. Failure to increase the tax threshold effects those on lower incomes proportionately more than those on higher incomes and has the added impact of drawing in to the tax system those who were previously exempt from tax due to their low levels of income. Social Security Pensions are now at a level approaching the tax threshold, the single pension is now $74.10 a week and married pension is $61.80 a week for each partner. Single pensioners who earn additional income below the point at which their pension is reduced, $20 a week, are coming very close to paying tax. Also people engaged in part-time work, the majority of whom are women, may find themselves drawn into the tax system for the first time. This will have the greatest proportionate affect on single parent households relying on the one part-time income and government benefit and two adult households where one spouse works part-time to augment the low pay of the other spouse.

Failure to index the personal income tax system has also meant that taxpayers at higher levels of income may be drawn into a higher tax rate bracket, though the impact of this is reduced by the simple three rate tax structure.

(vi) Changes to the Tax System 1975-82

The Institute of Applied Economic and Social Research (1979) in its review of the Budget and the Economy 1979/80 examined some of the changes that had occurred in the personal income tax system over the 1975/80 period and argued that the degree of progressivity of the one progressive tax in the fiscal

TABLE 11 EFFECTIVE[1] TAX THRESHOLD AS A PROPORTION OF AWE

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	Change pp[2]
Single Person	28.6	28.7	31.2	33.2	30.3	27.6	25.0	- 3.6
Married couple with dependent spouse (No children)	45.4	47.4	49.0	48.4	44.3	44.7	40.4	- 5.0
Married couple with dependent spouse + one child	54.9	54.2	54.7	52.5	48.6	48.6	43.8	-11.1
Married couple with dependent spouse + two children	61.8	62.3	62.2	59.6	54.7	54.1	48.0	-13.2
Married couple with dependent spouse + three children	70.0	71.3	70.7	67.6	62.1	60.8	57.3	-12.7
Married couple with dependent spouse + four children	78.7	80.3	79.2	75.5	69.4	67.5	66.1	-12.6
Two income[3] family (No children)	57.2	57.4	62.4	66.4	60.6	55.2	50.0	- 7.2
Two Income family + one child	66.7	64.2	68.6	71.0	64.9	59.1	53.4	-13.3
Two income family + two children	74.1	73.9	77.5	77.7	71.0	64.7	58.2	-15.9
Two income family + three children	85.7	85.6	86.5	85.6	78.3	71.3	66.9	-18.8
Two income family + four children	94.3	97.2	95.3	93.5	85.7	78.0	75.6	-18.7
Sole parent + one child	46.5	48.6	49.5	48.4	44.4	43.5	39.2	- 7.3
Sole parent + two children	54.9	58.0	57.7	55.0	50.5	49.0	44.0	-10.9
Sole parent + three children	63.6	67.0	66.1	63.0	57.8	55.7	52.8	-10.8
Sole parent + four children	72.2	73.4	74.6	70.9	65.2	62.3	61.5	- 0.7

1. The effective tax threshold for households with children occurs at the point where tax payable is equal to the level of family allowances (1976 to 1982) or child endowment (1975/76).
2. Percentage points.
3. It is assumed that the primary income earners earn twice as much as the secondary income earner.

armoury has been reduced significantly since 1975-76.

The major impact on the progressivity of the tax system in this period was the tax cuts of February 1978 and the dramatic growth in tax avoidance. The Institute argues that the net result of these changes in the income tax structure has been to shift the incidence of the personal income tax system substantially away from higher income groups. More recent studies (Saunders, 1982; Harding, 1982) indicate that this shift of tax away from high income earners has been maintained over the period 1978 to 1981. Harding has also shown that families with dependent children, and in particular two income families with dependent children, have borne much of the brunt of growing tax inequalities.

Table 12 examines the overall impact of changes to the tax system between 1975/76 and 1981/82 for households of different types on a given proportion of average weekly male earnings. Income up to the level of twice average weekly earnings is shown in the table. In 1975-76 approximately 95 per cent of tax-payers had taxable income below twice average weekly earnings and in 1981/82 99 per cent of taxpayers had income below this level. The table shows the shifting burden of tax from high to low income earners for all household types and from households without dependent children towards households with dependent children.

For the single taxpayer on half average weekly earnings with no deductions or rebates income tax has increased over the period 1975 to 1982 by $834, the effective tax rate has increased by 4.4 percentage points. In contrast the single taxpayer on twice average weekly earnings has experienced an increase in tax payable of $5479.4 but this has reflected a decrease in the effective tax rate of 0.2 percentage points. Similar trends are observed for the various household types. Horn (1981) has shown the relative shift of the tax burden from high to lower incomes by examining the contribution of different income groups to the total tax yield. He notes that

> The share of tax paid by incomes at or below AWE rose from 16.6 per cent in 1972-76 to 18.7 per cent in 1980-81, with a corresponding reduction from 83.4 per cent and 82.6 per cent for higher incomes.
>
> (Horn, 1981:23)

and adds that

If one were to weigh these figures by the actual income distribution (more in the lower than the upper ranges) this shift in the tax burden from higher to lower incomes would stand out even more strongly.

Table 12 can also be used to demonstrate how taxpayers with children are carrying a larger proportion of the tax burden in 1982 than in 1975. This shift has been more pronounced in two income households with children. Married couple taxpayers with two children who are in receipt of the dependent spouse rebate and who have an income equal to average weekly male earnings are paying $1579 more in tax in 1982 than in 1975. This represents an increase in average tax paid of 3.0 percentage points. A two income family with two children on a combined income equal to average weekly earnings (where the primary income earner earns twice as much as the secondary earner) has experienced an increase in tax payable, over the same period of $1582. This represents an increase in the average tax paid by this family of 5.8 percentage points. Thus, although all taxpayers with children are shouldering a greater proportion of the tax burden in 1982 than they did six years ago, two income families have experienced a proportionately greater increase in the tax that they pay.

It must be concluded that changes to the personal income tax system over the period 1975 to 1982 have seriously reduced the nominal progression of the personal income tax system. Lower income groups especially those with children are now carrying a larger share of the tax burden than they did in 1975. As the Institute of Applied Economic and Social Research (1979) has observed, these developments in relation to the incidence of taxation are undoubtedly increasing the hardships of many families whose incomes have also been affected by unemployment or related economic developments.

(4) FISCAL WELFARE AND SOCIAL WELFARE : A COMPARISON

Examination of the Australian personal income tax system leads to the conclusion that the tax system, through a series of rebates, deductions and income exemptions, gives preferential treatment to the income and expenditure patterns of those on higher incomes at the expense of low income earners. Recently these rebates, exemptions and deductions have been described as tax expenditures and their similarity to public expenditure has been emphasised.

TABLE 12 COMPARATIVE TAX POSITIONS 1975 - 1982

INCOME AS A PROPORTION OF AWE *	1975 - 76 TAX PAYABLE	1975 - 76 EFFECTIVE TAX RATE	1981 - 82 TAX PAYABLE	1981 - 82 EFFECTIVE TAX RATE	CHANGE IN EFFECTIVE TAX RATE PERCENTAGE POINTS
SINGLE TAXPAYER	(no deductions or rebates)				
½	510.3	11.6	1,344.3	16.0	+4.4
3/4	1,234.9	18.7	2,687.4	21.3	+2.6
1	2,006.6	22.7	4,030.7	24.0	+1.3
1¼	2,880.7	26.1	5,807.8	27.7	+1.6
1½	3,872.8	29.2	7,738.2	30.7	+1.5
1-3/4	4,908.0	31.8	9,669.3	32.9	+1.1
2	6,121.0	34.7	11,600.4	34.5	-0.2
MARRIED COUPLE	(with dependent spouse rebate only)				
½	110.3	2.5	514.3	6.1	+3.6
3/4	834.9	12.6	1,857.4	14.7	+2.1
1	1,606.6	18.2	3,200.7	19.1	+0.9
1¼	2,480.7	22.5	4,977.8	23.7	+1.2
1½	3,472.8	26.5	6,908.2	27.4	+0.9
1-3/4	4,508.0	29.2	8,839.3	30.1	+0.9
2	5,721.0	32.4	10,770.4	32.1	-0.3
MARRIED COUPLE + 2 CHILDREN	(with dependent spouse rebate and family allowance)				
½	-	0	71.5	0.9	+0.9
3/4	406.9	6.2	1,414.6	11.2	+5.0
1	1,178.6	13.4	2,757.9	16.4	+3.0
1¼	2,052.7	18.6	4,535.8	21.6	+3.0
1½	3,044.8	23.0	6,465.4	25.7	+2.7
1-3/4	4,080.0	26.4	8,396.5	28.6	+2.2
2	5,293.0	30.0	10,327.6	30.8	+0.8
TWO INCOME* FAMILY	(without dependents)				
1	1,091.3	12.4	2,688.7	16.0	+3.6
1¼	1,804.1	16.4	4,032.2	19.2	+2.8
1½	2,517.1	19.0	5,375.4	21.3	+2.3
1-3/4	3,270.3	21.2	6,956.3	23.4	+2.2
2	4,188.7	23.7	8,691.7	25.9	+2.2
TWO INCOME FAMILY + 2 CHILDREN	(with family allowance)				
1	663.3	7.5	2,245.9	13.3	+5.8
1¼	1,376.1	12.5	3,589.4	17.1	+4.6
1½	2,089.1	15.8	4,932.6	19.6	+3.8
1-3/4	2,842.3	18.4	6,513.2	22.2	+3.8
2	3,760.6	21.3	8,248.9	24.6	+3.3

* It is assumed that the primary income earner earns twice as much as the secondary income earner.

> The(se) concessions reduce or delay the receipt of taxation revenue and are as much a call on the Budget of a particular year as are direct outlays. Because their effects on the overall Budget results and on those who benefit are comparable in many respects with effects of direct outlays, they are often referred to as 'taxation expenditures'.
>
> (Treasury, 1982)

Tax expenditures may be provided to meet similar objectives to those of direct welfare payments. For example tax concessions for occupational superannuation through: concessional rebates, exemption from tax of fund earnings and exemptions from tax of all but 5 per cent of the value of benefits paid as lump sums, enhance retirement income in a similar manner to cash assistance for the aged in the social security system (Ingles et al, 1982). The transference of assistance to families with dependent children from the personal income tax system to the cash transfer system in 1976 also demonstrates clearly how tax expenditures and cash transfers may serve essentially the same function. Other tax expenditures, for example investment allowances, accelerated depreciation and trading stock valuation adjustments, are provided as a form of industrial assistance.

Before the development of the notion of tax expenditures, Richard Titmuss, in his paper on the social division of welfare had argued that tax allowances and rebates provide a system of welfare - fiscal welfare - analogous to the system of social welfare. Tax expenditure and fiscal welfare, Pond notes, are concepts that are closely related but not equivalent.

> By no means all elements of fiscal welfare, in the form of allowances and reliefs, can be counted as tax expenditure. Nor are all forms of expenditure administered through the tax system a response to particular needs equivalent to those at which social policy is directed.
>
> (Pond, 1980:47)

The distinction between the two concepts is important, especially in the presentation of Tax Expenditure Budgets but is not explored further here. The interested reader is referred to (Field (1981), Ingles et al (1982) and Pond (1980)).

What we are examining is:

- the difference, in terms of mode of provision, of fiscal welfare and social welfare benefits
- the impact of tax expenditures and fiscal welfare on the wider areas of economic and social policy

Fiscal welfare differs from social welfare not only in terms of the group for whom it provides but also in terms of generosity, stigma, and the extent to which expenditure is made public.

Fiscal welfare, as discussed above, can be conceptualised as welfare for the wealthy and mainly welfare for men. In direct contrast, social welfare is provided for those with little or no income and its recipients are often women. In 1981 women received 67 per cent of age pensions, 95 per cent of supporting parents benefits, all widows pensions, 31 per cent of invalid pensions, 30 per cent of unemployment benefits and 24.2 per cent of sickness benefits (Department of Social Security, Annual Report, 1981).

Pond has also noted

> the social security system is geared to the recognition of subsistence, or near subsistence, needs and is often subject to a means test. Provision through the fiscal and occupational welfare systems is rarely subject to the same stigma that attaches to dependence on the social security apparatus.
>
> (Pond, 1981:50)

Cash benefits such as unemployment benefits diminish in value as the income of a cohabiting couple increases. However this is not the case with most of the benefits paid through the tax system. Deductions as we have noted increase in value as the income of the taxpayer increases, while rebates are reduced on the value of spouses' or children's income not taxpayers' income.

Stigma is not associated with receipt of fiscal welfare benefits partly because of the indirect means by which they are channelled to the taxpayer and partly because the recipients are not poor. In contrast, receipt of social welfare often involves humiliation, conforming to rules of stringent income test, regular attendance at the social security office and the opprobrium of dependency on the 'public purse'. Sinfield (1978) has noted that differential visibility of different types of welfare disguise who really benefits from them. He describes this as a 'selective vision' in which our attention is focused on how well the poor are doing and diverted from realising that the non-poor are doing much better. Sinfield has also made the very important point that welfare not only distributes resources but also security, power and status. Welfare can reinforce or strip recipients of their status and, by affecting perceptions of society, help to legitimise and not just reflect the existing social structure.

Social welfare may be further distinguished from fiscal welfare in that during recessionary periods there is often a call for it to be restricted to 'needy' groups. Very seldom is the suggestion made that tax benefits should also be restricted to the poor.

> Yet now that massive cuts in expenditure are being planned, debate is exclusively concentrated on the likely cuts in provision of help to the poorest. It appears that the government has no plans to cut the benefits paid to rich members of society through the tax system.
>
> (Field, Meacher, Pond, 1977:67)

Why are governments so seemingly unconcerned about increasing expenditure on fiscal welfare? Why is there no 'backlash' from low income earners against the welfare state of the rich? The National Council of Welfare (Canada,1976) believes that the answer to this lies in the fact that the fiscal welfare state is a hidden welfare state. Fiscal welfare is not subject to the same scrutiny and control as social welfare. In most countries it is impossible to get details on the amount of tax revenue foregone due to tax expenditure and fiscal welfare allowances. Little information is available on exactly who benefits from these expenditures. Attempts to improve this situation, through the development of tax expenditure budgets, have been made in the United States, Canada and Great Britain. In Australia information on tax measures in the health and welfare areas was first set out in the Budget Papers in 1972-73 (Ingles, et al 1982). Statement 4 of the 1982-83 Budget Papers includes some data on the major categories of tax expenditures but the usefulness of this information is reduced by lack of available information on the costs of particular concessions and lack of information on who benefits from tax expenditures and by how much. Presently in Australia the House of Representatives Standing Committee on Expenditure is examining the ways in which comprehensive and timely information on tax expenditures might be prepared. The impact of government redistributive policies cannot be properly analysed until these fiscal expenditures are brought within the same framework of budgetary control and reporting as cash benefits.

Tax expenditure and fiscal welfare are very important because of their distributional impact but just as important is their impact on tax revenue and its accompanying effects on economic efficiency and social welfare expenditure. The impact of tax expenditures on the revenue raised from personal income tax has been estimated for the UK by Willis and Hardwick (1978). They showed that in the UK the effective tax base was more than halved by tax expenditures in 1973-74. Other estimates have shown that for the late 1960s taxable income as a per cent of total personal income was 43 per cent in the UK, 45 per cent in the US, 24 per cent in France and 79 per cent in West Germany (Pond, 1980). In Australia the Asprey report (1975) estimated that in 1971-72 deductions and rebates reduced the tax base by nearly 20 per cent and involved a loss of revenue of more than one third of the sums actually raised.

As Field, Meacher and Pond note, whenever any group of taxpayers receive an allowance another group must pay for this through higher marginal tax rates if the level of tax revenue collected is to be maintained. In Australia higher levels of allowances combined with massive tax avoidance have meant that wage and salary earners are now facing relatively high marginal tax rates. This may have important consequences for social policy.

> Whatever the reality, it is people's perception of the tax system that determine their response to demands for additional social expenditure and if it is felt that tax rates are already too high there will be increased reluctance to sanction increased expenditure.
>
> (Pond, 1980:57)

High marginal tax rates may also have an important impact on people's decision to take paid work (and as discussed later this may have a greater affect on women's rather than men's decision to take paid work).

This discussion of tax expenditure and fiscal welfare does not imply that these types of expenditure are necessarily illegitimate. What the discussion does indicate is that expenditure through the tax system should not remain hidden. These benefits and expenditure should be scrutinised just as closely as expenditure through social welfare. A government policy to increase a tax benefit should be subject to the same public scrutiny as a policy of increasing a cash transfer benefit or pension. When social and fiscal welfare, cash transfers and tax expenditures are considered side by side, and their impact on distribution of income fully understood, then organised groups concerned with the pursuit of social justice through the taxation/cash transfer system will have a better basis for their political understanding, mobilisation and advocacy.

(5) TAXATION, THE FAMILY, WOMEN AND DEPENDENCY

The final section of this report examines the treatment in the personal income tax and cash transfer system of taxpayers with a dependent spouse and taxpayers with children. It is argued that a redistribution of revenue is taking place away from mothers of dependent children and in favour of husbands with a dependent wife.

(i) The Dependent Spouse Rebate

The Dependent Spouse rebate is a rebate made to taxpayers who have a dependent *de jure* spouse whose personal income is less than \$3602. For 1981/82 the value of the rebate was \$830. This rebate has been seen as a tax policy for promoting horizontal equity by adjusting a taxpayer's tax liability according to family circumstances. Advocates of this tax policy claim that it is a policy for helping families. However an examination of who benefits from the spouse rebate shows that it assists only a restricted group of taxpayers with family responsibilities.

Earlier in this report data were presented showing that the spouse rebate benefits those on higher incomes in greater proportion than those on low incomes and benefits male taxpayers much more than female taxpayers. Data from the Report of the Commissioner of Taxation 1976/77 also allow us to examine how many people with children benefit from the spouse rebate. (1976/77 is the latest year for which these data are available.)

From Table 13 it can be seen that overall only about 49 per cent of taxpayers with children benefited from the spouse rebate in 1975/76. As the number of children in the household increased, the proportion of taxpayers receiving the rebate increased showing the reduced likelihood of both husband and wife being employed. The spouse rebate can also be seen to assist a larger proportion of high income households with children than low income households with children. In contrast a considerable proportion (30.8 per cent) of the married couple households benefiting from the spouse rebate do not have children.

As Meredith Edwards (1980) has noted the spouse rebate is related to marriage and dependency rather than needs arising from family responsibility. This point has also been made by Shaver and Walker who have said that the:

> large expenditure on spouse rebate is justified politically as support for the family but in fact entitlement to the rebate has no necessary connection with care of children. It is in fact a payment for domestic labour paid to the husband to recompense him for reproducing his labour power.
>
> (Shaver, S. and Walker, C., 1980)

This point is reinforced when we identify the groups who do not benefit from the spouse rebate:

- a spouse who does not pay tax because his/her income is too low (i.e. most pensioners and beneficiaries)
- a large number of households with children, in particular all sole parent households (constituting 13 per cent of families with children) and taxpayers with children where both parents earn income
- couples living in de facto relationships where there are no dependent children for whom the woman might be designated 'housekeeper'.
- women and children in households where the spouse rebate is received by the male breadwinner but where transfers of income within the family are not made equitably.

The spouse rebate is thus a very inefficient and inequitable policy instrument for assisting low income households and households with children. However since its introduction the spouse rebate has received very favourable treatment. Since June 1976 it has increased in absolute terms by 108 per cent and in real terms it has increased by 17 per cent. Thus from 1976 it has more than kept pace with inflation. As a proportion of AWE (male) it reached its peak value in 1980/81 (Podger, Raymond and Jackson, 1980).

TABLE 13 : PERCENTAGE OF TAXPAYERS WITH CHILDREN WHO RECEIVED THE SPOUSE REBATE 1975/76

Number of children	Income less than $9,000*	Income more than $9,000	TOTAL
	%	%	%
1 child	32.3	48.1	39.1
2 children	43.4	58.7	51.8
3 children	50.6	62.1	57.8
4 children	55.4	65.8	62.5
All	39.9	65.5	48.8

* approximately equal to average weekly male earnings for 1975/76
Source: Taxation Statistics, Commissioner of Taxation (1977)

Why has the spouse rebate been given high priority in public policy? Why do many advocates argue that it should be increased further and be used as a means for assisting 'single income families'?

Edwards (1980) suggests that this may be because during a recessionary period there is a strong view that women should be encouraged to stay at home and vacate jobs for the young unemployed. In addition, there is official concern about the trend away from formal marriage. By its very nature as fiscal welfare, the cost of the dependent spouse rebate is not recognised readily as government expenditure, even though it represents revenue foregone. Also there is confusion amongst advocate groups as to whom the benefit assists (i.e. the spouse rebate is seen as a family policy, whereas in fact it has no inherent family element).

In addition to being an inefficient policy instrument for assisting low income families and families with children, the spouse rebate has several discriminatory aspects associated with it. It is not neutral with regard to marriage because it is only paid to a de jure spouse, not a de facto spouse (except where a woman can be claimed as a housekeeper where there are dependent children). It is not neutral with regard to the decision to enter the paid workforce because the spouse rebate is completely withdrawn when the spouse's income exceeds $3602. (The decision of a spouse to enter the paid workforce is also affected by the fact that work in the home is not taxed while work outside the home is). This policy is thus out of tune with the increased participation of married women in the workforce, and the movement away from formal marriage.

(ii) Assistance to Families with Children

Consideration of the non-indexation of family allowances, the small proportion of high income taxpayers who can take advantage of concessional rebates in respect of such matters as children's education (Groenewegen, 1981), and the lower value of the sole parent rebate (when compared with the dependent spouse rebate) all suggest that there is presently a bias in our tax/welfare system against families with dependent children, and particularly against low-income families with dependent children.

In 1976/77 assistance for families with dependent children through the dual system of child endowment and tax rebates was replaced by family allowances. The introduction of family allowances benefited 800,000 children in 300,000 families who had previously not benefited from tax rebates. The introduction of family allowances also marked a redistribution of income within the family from the presumed breadwinner and taxpayer (the father) to the mother - a transfer from wallet to purse. For the first and second children the nominal value of family allowances is the same in 1981/82 as it was in 1976/77, and its real value has decreased over the period 1976-82 by 44 per cent. Family allowances for third and subsequent children were increased in the 1981/82 budget but have still decreased in real value by 16 per cent since 1976.[4] The benefit of increases in family allowances for third and subsequent children assisted only 27 per cent of all families with dependent children (ABS, 1980). If the tax rebate system had been retained, the government could have increased the rebate for dependent children and called the measure a tax reduction. Having been placed within the area of welfare expenditure, family allowances became subject to close political scrutiny and the principle of indexation did not arise as a politically viable issue.

The gain to revenue from non-indexation of family allowances suggests that revenue motives were influential in the decision to move from child rebates to family allowances (Groenewegen, 1981). Calcualtions made by Cass, Keens and Moller (1981) have demonstrated the savings made to revenue by comparing outlays on family allowances in the period 1976/77 to 1980/81 with the costs which would have been incurred if tax rebates for children had been retained and indexed: firstly, in line with the Consumer Price Index; and secondly, if child rebates had been indexed in the same proportions as the dependent spouse rebate. The saving to revenue over the period using the first measure (indexation in line with the CPI) was $254 million, and the saving to revenue using the second measure (indexation in line with the dependent spouse rebate) was $458 million. The end result of the policy change from rebates to family allowances was a saving of revenue for the government due to the increased tax liability of taxpayers with children and decreased cash assistance to families with children.

When the indexation of rebates to taxpayers with a dependent spouse (i.e. a rebate which almost always benefits husbands) is compared with non-indexation of family allowances (usually paid to mothers), it is reasonable to conclude that a redistribution of revenue is now taking place away from mothers of dependent children and in favour of husbands with a dependent wife.

The increase in the spouse rebate has not been sufficient to offset the reduction in real value of family allowances even for a couple with only one child. Thus taxpayers with a dependent spouse and dependent children have experienced a deterioration in their position relative to taxpayers without children. However, of all taxpayers, a married taxpayer without a dependent spouse but with dependent children has fared the worst (Podger, Raymond and Jackson, 1980). In addition, pensioners and beneficiaries with children, (who usually do not qualify for a dependent spouse rebate being non-taxpayers) are the group of beneficiaries the value of whose benefit has fallen most severely behind average weekly earnings, because of the non-indexation of the child allowance payable to beneficiaries with children and the non-indexation of family allowances.

The advantages of family allowances as a redistributive policy are:

- they are payable to the person responsible for the care of dependent children (usually the mother)
- they are payable to the parent regardless of marital status or the composition of the household
- they are payable whether or not spouses are in the workforce i.e., they do not reward dependency or discriminate against income-earning activity on the part of women or men

- they benefit all families containing children: families with income-earners and taxpayers; and families without earned income (i.e., pensioner and beneficiary families) benefit equally.

Family Allowances also have the advantage of redistributing resources from periods in an individual's life cycle when there is less demand on resources to periods when the demand is highest (Lister, 1981).

(iii) Consideration of alternative proposals for tax treatment of families

Not all advocates of increased assistance to families agree that this is most appropriately achieved by the indexation of family allowances. Arguments have been proposed for assisting families through changes to the personal income tax system, that is, through the introduction of 'income splitting'. This policy has a significantly different redistributive impact in comparison with indexation of family allowances.

Income splitting involves altering the tax system to permit spouses to split their incomes for personal income tax purposes on a notional partnership basis. For example, in a single income family where the husband earns $10,000, half of this could be allocated to the spouse without any income for taxation purposes. The tax liability of this family would be reduced by approximately $500. For taxpayers paying the basic rate of 32 cents in the dollar, income splitting would thus effectively extend the tax threshold to the spouse without income for tax purposes: a policy which is presently equivalent to increasing the spouse rebate to $1,343. Such a policy has no intrinsic reference to the position of low income earning families with children.

For taxpayers paying tax at higher marginal tax rates, income splitting would not only extend the tax threshold to the non-income earning spouse, but might also reduce the marginal rate of tax paid by the income earning spouse. For example, in the present tax system a man on $34,000 per annum would pay tax on half of his income at the rate of 46 cents in the dollar, if income splitting were introduced his income would fall entirely within the 32 per cent marginal tax rate bracket.

Table 15 shows the tax savings (according to husband's and wife's income) that would be made if income splitting were introduced into the present tax system. It can be observed that high income households, where the wife has no income or little income (for tax purposes), benefit the most from income splitting. In a household where the husband earns $40,000 per annum and the wife has no earned income, tax savings from income splitting would be approximately equal to $3,600. By comparison a household where the husband earns $10,000 per annum and the wife earns $5,000 per annum would not benefit from the introduction of income splitting.

Such proposals as income splitting and an increase in the dependent spouse rebate have been promoted as a means of tax relief for one-income families, to even-up the disparity with so called 'rich' two-income families. However, analysis of income data for income units collected by the Australian Bureau of Statistics for 1978/79, shows that the typical household with dependent children, where the wife is employed contains not two income-earners, but one plus one third ($1 + {}^{1}/_{3}$) income earners. That is, the value of women's income is typically one third of the value of their husband's income.

As noted earlier, the spouse rebate, and thus income splitting, embodies several discriminatory aspects, i.e., it is not neutral with respect to marriage and it creates an employment disincentive effect for one partner to a marriage. Edwards has noted that

> income splitting is harsh on families with low earning capacity, families most likely to have difficulty in pulling themselves out of poverty ... tax reform based on the married couple is out of tune with social change. Income splitting is harsh on married women who wish to earn ... The income splitting proposal does nothing on its own, to rectify the increase in the tax burden faced by parent taxpayers over recent years.
>
> (Edwards, 1980:8)

Several American studies have examined the effect on women's labour force participation of a move away from the individual as the tax unit (as with income splitting or rebates for dependent spouses) (see Saunders, 1981). These studies conclude that such policies may have a marked disincentive on women's decision to take paid employment and that these disincentives may be greater for women who would be likely to earn low incomes. This issue requires investigation in the Australian context but inferences can be made from the United States findings.

Analysis of income distribution data in Australia (ABS, 1982) shows the large proportional contribution to the income of the income unit made by employed women in low-income families (Table 14). The ratio of wives' earned income to husbands' earned income increases as the husband's income decreases. The implication of this finding is that any tax policy or cash transfer policy which further reduces the incentive for women's income earning activity would be likely to have a markedly regressive effect: that is, it would be likely to affect the contribution made by women's earned income in low-income families. This would clearly not promote social justice for families.

TABLE 14 : RATIO OF WIVES' EARNED INCOME TO HUSBANDS' EARNED INCOME

Husbands' Income	Wives' Earned Income / Husbands' Earned Income	TOTAL N '000
5,000 and under 6,000	.70	225.4
6,000 " " 7,000	.57	88.4
7,000 " " 8,000	.51	92.0
8,000 " " 9,000	.50	132.3
9,000 " " 10,000	.42	193.3
10,000 " " 11,000	.37	227.5
11,000 " " 12,000	.32	283.3
12,000 " " 13,000	.31	233.6
13,000 " " 14,000	.28	261.4
14,000 " " 15,000	.26	180.8
15,000 " " 16,000	.24	168.0
16,000 " " 18,000	.21	139.0
18,000 " " 20,000	.20	212.6
20,000 " " 25,000	.20	116.2

Source : ABS (1982) Income Distribution, Australia 1978-79, Income Units. Cat.No. 6523.0.p.27.

TABLE 15 : TAX SAVINGS FOR A MARRIED COUPLE IF INCOME SPLITTING WAS INTRODUCED 1981/82*

Husband's income p.a.	Wife's income as a percentage of husband's income			
	0	25%	50%	75%
$		$		
8 000	387	302	62	0
10 000	515	267	0	0
15 000	515	142	0	0
20 000	807	294	295	295
25 000	1 507	994	755	0
30 000	2 207	1 455	41	0
35 000	2 907	1 280	55	0
40 000	3 607	1 694	589	589
45 000	4 307	2 219	1 289	284

* Equal revenue assumptions have not been made for the calculations in this table.

According to Margaret Wynn (1972) commenting on English family policy, employed women have done more in the post-war period to augment the income, and hence the welfare, of their families than any cash transfer or tax benefit provided by governments. The same observation has been made in the Australian situation by Margaret Power:

> To subsidise the economic dependency of women and penalise families with two-income earners is an extraordinary policy when we know from the Henderson Report that if married women did not have paid work the number of families in poverty would double.
>
> (Power, 1982)

Taxation or cash transfer policies (e.g., the dependent spouse rebate, income splitting, allowances paid to mothers only on the condition of their dependency and income testing of family allowances) which penalise women's income-earning activity do not promote the best interests of women and children, or the best interest of the family as a unit.

(6) CONCLUSION

The personal income tax system provides not only a major source of government revenue but is also an important instrument of social policy. Following the work of Titmuss, Sinfield and Rose, this report has argued that social policy analysis must pay close attention to the processes of fiscal welfare, analysing tax policies and the direction of their redistributive effects. For the purposes of adequate understanding of the social divisions of welfare and for the purpose of identifying the major beneficiaries of the total welfare system, it is essential that the system of taxation benefit (through concessions, rebates and exemptions of certain forms of income from the tax base) become the subject of careful scrutiny.

The social welfare system which is identified with cash transfers and social services for poor beneficiaries who are largely excluded from paid employment and other sources of earned income is associated with stigma, the imposition of stringent income tests and other forms of social control and is subjected as public expenditure to intense political and administrative accounting. Fiscal welfare on the other hand is relatively hidden, less readily identified and accounted for as public expenditure, is legitimated by the association with high income beneficiaries whose benefits are rarely limited by an income-test and for whom the tax benefits serve to reinforce existing income and wealth advantages.

The report has argued that despite the nominally progressive rate structure of the Australian personal income tax system, there are officially sanctioned mechanisms which advantage higher income earners and wealth holders and disadvantage low income earners. It is further argued that these redistributive mechanisms, in having an inequitable impact on the disposable income available to different income classes, also have an identifiable impact on the disposable income available to women. This is so because women as wage-earners and income recipients in their own right are over-represented in the lower ranges of the income distribution and therefore are less likely than male tax-payers to be eligible for the range of deductions and rebates and exemptions from the tax base.

The definition of income used for inclusion in the tax base (which excludes most capital gains, wealth-holdings, fringe benefits associated with employment, imputed income from owner-occupied housing) includes most of the money income of those who are relatively low paid and have little wealth and asset-holdings, but exempts some major sources of income of the relatively wealthy. In the period 1975/76 to 1980/81 there has been a reduction in the proportion of total tax raised from rents, dividends, interests and unincorporate enterprises; and an increase in the proportion of tax raised from wage and salary earners. This signifies a shift in the distribution of the tax burden towards wage and salary earners and away from the recipients of more lucrative sources of income: that is a shift from the relatively rich to the relatively poor. In addition, the system of concessional rebates in respect of medical costs, rates and land taxes and children's education etc. favours taxpayers with higher incomes whose higher expenditure on these items enables them to derive tax benefits. As to taxpayers at the lowest end of the income distribution, the non-indexation of the tax-free threshold and the non-indexation of family allowances has drawn families with children on poverty level incomes inside the tax system. In summary, the implications of the redistributive effects of fiscal welfare are clear: the tax policies analysed serve to reinforce existing class and gender inequalities.

A second major theme in this report is the role of tax benefits and cash transfers which recognise the system of family dependencies: the dependencies of children and of wives and mothers. The dependent spouse rebate, the sole parent rebate and family allowances have been designed as elements of horizontal equity: to recognise the different financial situations of families at the same income level who have quantitatively different demands made on that income. We have argued that the privileged position given to the dependent spouse rebate in Australian tax/cash transfer policies, in benefiting male taxpayers with a dependent spouse, has not provided direct benefit to family dependents, has no redistributive impact in favour of families with an employed wife or in favour of single parent families, or in favour of low paid workers and pensioners and beneficiaries who incur no tax liability or who pay too little tax to benefit from the rebate. Conversely, the non-indexation of family allowances which redistribute directly to all women caring for dependent children and in particular to low income families not eligible for the dependent spouse rebate, has allowed the position of low income families with children to deteriorate. The non-indexation of family allowances, the small proportion of high income (male) taxpayers who can take advantage of concessional rebates in respect of such matters as children's education and the lower value of the sole parent rebate (when compared with the dependent spouse rebate) all suggest that there is a bias in the tax/cash transfer system against low income families with children and against women taxpayers with children. Clearly in this instance the major recipients of fiscal welfare have been advantaged in comparison with the recipients of social welfare.

In the 1980s, when political and ideological attacks on the legitimacy of the welfare state are characterised by a denunciation of mounting public expenditures on cash transfers and social services, i.e. with reference to the costs of social welfare, there is much less critical attention paid to the revenue costs and redistributive impact of fiscal welfare. What is required is a systematic exploration of the ways in which officially sanctioned tax policies serve to redistribute income in ways which are regressive and inequitable and which serve as concealed multipliers of existing income and wealth advantages.

(7) POSTSCRIPT : THE BUDGET 1982-83

Analysis of the social divisionsof welfare leads to the conclusion that fiscal welfare, which is provided through a series of rebates, income exemptions and deductions within the personal income tax system, mainly benefits those on higher incomes. Class and gender inequalities intersect to exclude the non-employed and low paid workers from the benefits of fiscal welfare. These lower income groups are the main recipients of social welfare, a system of welfare which offers limited rewards, financial insecurity and the social control of recipients. Changes made to the income tax and social security systems in the 1982-83 Budget have reinforced the divisions between fiscal and social welfare. The system of fiscal welfare has been developed and extended by increases in the value of rebates already within the tax system and by the introduction of new rebate schemes such as the housing loan rebate. In contrast only minor changes have been made to the social security system: the major change, the Family Income Supplement, explicitly excludes from eligibility pensioners and beneficiaries with children.

The taxation measures of the 1982/83 Budget include:

- an increase in the tax free threshold of $400 from $4195 to $4595
- a reduction in the standard rate of tax to 30 per cent from 32 per cent
- an increase in the point at which a taxpayer commences to pay tax at 46 per cent of each additional dollar to $19,500 from $17,894

- an increase in the spouse rebate of 24 per cent from \$830 to \$1,030 per annum for households with a dependent spouse and dependent children
- an increase in the sole parent rebate of 34 per cent from \$580 to \$780 per annum
- introduction of a pensioner rebate of \$250 per annum reduceable by 12½ cents by every dollar that exceeds \$5,429
- introduction of a tax rebate for home-purchasers who have a loan on their principal residence, the rebate to apply to that part of the interest rate which exceeds 10 per cent per annum in respect of the first \$60,000 of a loan
- introduction of a rebate at the standard rate of tax on dividend income up to a value of \$1,000

Other measures designed to directly assist families announced in the Budget are:

- an increase in the rate of family allowances by 50 per cent for first and second children
- introduction of a family income supplement of \$10 a week for each dependent child of a low income family. The maximum rate of this supplement is paid where the joint income of the parents does not exceed \$184 a week. Beyond this level of joint income, payment is reduced by \$1 for every \$2 of extra income. Payment of the Family Income Supplement for a family with one child cuts out completely where joint parental income is equal to or greater than \$204 per week.
- an increase of 50 per cent in the levels of private income that pensioners and supporting parents can receive without any reduction in their pension
- standardisation of the income test for unemployment and sickness benefits with an increased uniform free area of \$10 a week and an increase to \$60 a week in the upper limit to the range of non-benefit income over which the benefit is reduced on a 50 per cent basis

These measures do not have the same impact on all families but give the greatest assistance to middle and high income families and families with a de jure, dependent spouse. In particular we note that:

- although the changes to the tax system (increase in the threshold etc.) mean that some low income families will be relieved of paying income tax, the greatest benefits from these changes go to those taxpayers on incomes above $375 per week.

- the increase in the spouse rebate is based on recognition of the costs of parenthood. However the rebate will only benefit families with children that contain a dependent de jure spouse. As discussed in this report such an increase in the spouse rebate will benefit mainly high income, male taxpayers. To obtain the full spouse rebate taxpayers must be earning over $8,020.

- the sole parent rebate has increased so it is now equivalent to 76 per cent of the spouse rebate. To get the full rebate sole parents must be earning above $7,195.

- the home loan interest rebate is not income tested nor is it restricted to first home buyers. The direct target of this measure is not households with children, though some households with children will benefit. Low income households with children who cannot afford to purchase their own home and who are in rented accommodation will not benefit.

- family allowances have increased and this assists all households with children. However since 1976 family allowances, even after this 50 per cent increase, have decreased in real value by 16 per cent. The cost to the government of increasing family allowances is $375 million for a full year, which can be compared with the full year cost, $415 million, of the two home rebate schemes operating in 1982/83.

- the Family Income Supplement was introduced basically as a means for maintaining work incentives by increasing the income differences between unemployed and pensioner families with children and low wage families with children. Child allowances for social security beneficiaries with children were not increased and remained at their 1980 level of $10 per child per week.

- adjustments to the incomes tests for beneficiaries and pensioners has reduced the effective marginal rate of tax on those who have a little extra income in addition to their pension.

Of all families with dependent children, the budget gives greatest assistance to single income families (i.e. families with a dependent de jure spouse) on above average incomes, who are in the process of buying their own homes. In contrast only minimal extra assistance is provided for families with children receiving social security pensions or benefits and renting accommodation. Assistance to all families is reduced by the increases in sales tax introduced in the budget. However the regressive character of sales tax ensures that its greatest proportional impact will be on low income households.

(8) ENDNOTES

1. At present certain public finance writers e.g. Peter Groenewegen (1982) and Russell Mathews (1980) are questioning the appropriateness of selecting income rather than consumption as the major tax base in the Australian tax system. They point to the difficulties associated with defining income comprehensively for tax purposes. John Head (1977) has described the search for a comprehensive definition of income as the impossible dream.

2. Rebates are deducted from the tax due to be paid. For some taxpayers, the amount of tax due, calculated on their taxable income, will be less than the value of the rebate and so the effective value of the rebate to them is less than its nominal value.

3. The effective tax threshold for households with children occurs at the point where tax payable is equal to the level of family allowances (1976 to 1982) or child endowment (1975-76).

4. The change in the real value of family allowances is arrived at by inflating the 1976 value of family allowances to 1982 values and calculating the proportional change between the two figures. For example, the actual value of family allowance for the first child in both 1976 and 1982 was \$15.20 per month. However if the value of family allowance for the first child in 1976 is inflated to 1982 levels using the consumer price index its real value was \$27.00 per month, i.e. ($\$15.20 \times \frac{359.5}{202.4} = \$27.00$) Thus the real value of family allowances between June 1976 and June 1982 decreased by 44 per cent. Over the same period the consumer price index rose by 78 per cent.

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